

MANCHESTER DISTRICT LIBRARY

FINANCIAL STATEMENTS

MAY 31, 2004

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name MANCHESTER DISTRICT LIBRARY	County WASHTENAW
Audit Date 5/31/04	Opinion Date 9/3/04	Date Accountant Report Submitted to State: 9/30/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan as revised.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) MARKOWSKI & COMPANY, CPAs			
Street Address 2880 SPRING ARBOR ROAD		City JACKSON	State MI
Accountant Signature <i>Markowski & Company</i>		ZIP 49203	

MANCHESTER DISTRICT LIBRARY

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MARKOWSKI & COMPANY

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CERTIFIED PUBLIC ACCOUNTANTS
MICHIGAN ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTS
ESTATE PLANNING COUNCIL
OF SOUTH CENTRAL MICHIGAN

INDEPENDENT AUDITOR'S REPORT

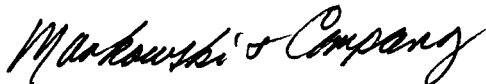
Board of Trustees
Manchester District Library
Manchester, Michigan

We have audited the accompanying general purpose financial statements of the **MANCHESTER DISTRICT LIBRARY**, as of and for the year ended May 31, 2004, as listed in the table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Manchester District Library as of May 31, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements of the Manchester District Library taken as a whole. The combining statements listed in the table of contents are presented for the purposes of additional analysis and are not a required part of the general purpose financial statements of the Manchester District Library. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.



MARKOWSKI & COMPANY, CPAs
Jackson, Michigan
September 3, 2004

MANCHESTER DISTRICT LIBRARY
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
MAY 31, 2004

<u>ASSETS</u>	<u>GOVERNMENTAL FUND</u>	<u>FIDUCIARY TRUST FUNDS</u>
ASSETS		
Cash and cash equivalents	\$ 312,164	\$ -
Investments	-	5,658
Property taxes receivable	18,340	-
Other receivables	46	-
Prepaid expenses	5,600	-
Fixed assets	-	-
TOTAL ASSETS	\$ 336,150	\$ 5,658
 <u>LIABILITIES & FUND BALANCES</u>		
LIABILITIES		
Accounts payable	\$ 3,572	\$ -
Accrued payroll	7,159	-
Accrued expenses	311	-
TOTAL LIABILITIES	11,042	-
FUND BALANCES		
Investment in general fixed assets	-	-
Fund balances:		
Reserved, designated for Library programs	-	5,658
Unreserved, undesignated	325,108	-
TOTAL FUND BALANCES	325,108	5,658
 TOTAL LIABILITIES AND FUND BALANCES	 \$ 336,150	 \$ 5,658

The accompanying notes are an integral part of the financial statements

ACCOUNT GROUP		TOTAL
GENERAL		(MEMORANDUM
FIXED ASSETS		ONLY)
\$ -		\$ 312,164
-		5,658
-		18,340
-		46
-		5,600
133,110		133,110
<u>\$ 133,110</u>		<u>\$ 474,918</u>

\$ -		\$ 3,572
-		7,159
-		311
<u>-</u>		<u>11,042</u>

133,110		133,110
-		5,658
-		325,108
<u>133,110</u>		<u>463,876</u>

<u>\$ 133,110</u>		<u>\$ 474,918</u>
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MANCHESTER DISTRICT LIBRARY
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
YEAR ENDED MAY 31, 2004

	GOVERNMENTAL FUND GENERAL FUND	FIDUCIARY FUND EXPENDABLE TRUST FUND	TOTAL (MEMORANDUM ONLY)
REVENUES			
Property taxes	\$ 304,088	\$ -	\$ 304,088
Grants	5,982	-	5,982
State aid	8,820	-	8,820
Penal fines	12,555	-	12,555
Fines and fees	5,785	-	5,785
Investment income	2,919	263	3,182
Contributions	2,975	-	2,975
Other	733	-	733
TOTAL REVENUES	343,857	263	344,120
EXPENDITURES			
Culture and recreation	278,656	263	278,919
REVENUES OVER (UNDER) EXPENDITURES	65,201	-	65,201
FUND BALANCES, BEGINNING OF YEAR	259,907	5,658	265,565
FUND BALANCES, END OF YEAR	\$ 325,108	\$ 5,658	\$ 330,766

The accompanying notes are and integral part of the financial statements

MANCHESTER DISTRICT LIBRARY
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
AMENDED BUDGET AND ACTUAL
ALL GOVERNMENTAL FUND TYPES
YEAR ENDED MAY 31, 2004

	GENERAL FUND		
	AMENDED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Property taxes	\$ 299,800	\$ 304,088	\$ 4,288
Grants	5,980	5,982	2
State aid	8,850	8,820	(30)
Penal fines	12,500	12,555	55
Fines and fees	5,400	5,785	385
Investment income	2,600	2,919	319
Contributions	3,000	2,975	(25)
Other	700	733	33
TOTAL REVENUES	338,830	343,857	5,027
EXPENDITURES			
Culture and recreation	336,430	278,656	57,774
REVENUES OVER (UNDER) EXPENDITURES	2,400	65,201	62,801
FUND BALANCES, BEGINNING OF YEAR	259,907	259,907	-
FUND BALANCES, END OF YEAR	<u>\$ 262,307</u>	<u>\$ 325,108</u>	<u>\$ 62,801</u>

The accompanying notes are an integral part of the financial statements

NOTES TO FINANCIAL STATEMENTS

MANCHESTER DISTRICT LIBRARY
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**MANCHESTER DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Manchester District Library conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies:

REPORTING ENTITY

The Manchester District Library (the "District") was formed May 22, 2000 by participating municipalities, which include the Village of Manchester, the Townships of Bridgewater, Freedom and Manchester, under the District Library Establishment Act of 1989, PA 24.

The District has followed the guidelines of the *Governmental Accounting Standards* Board's Statement No. 14 and has determined that no entities should be consolidated into its general purpose financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only.

FUND ACCOUNTING

The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report as follows:

GOVERNMENTAL FUNDS

General Fund

General Fund – This fund is established to account for resources devoted to financing the general services that the Library provides for its citizens. General tax revenues and other sources of revenue used to finance the fundamental operations of the Library are included in this fund. The fund is charged with all costs of operating the Library for which a separate fund has not been established.

Fiduciary Trust Funds

Fiduciary Funds are used to account for assets held by the Library in a trustee capacity or as an agent for other governments or funds.

The expendable trust fund is accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. Expendable trust funds account for assets where both the principal and interest may be spent.

**MANCHESTER DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FIXED ASSETS

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available, spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available, spendable resources" during a period.

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group, rather than in governmental funds. No depreciation has been provided on general fixed assets.

All fixed assets are valued at historical cost.

The account group is not a "fund". Account groups are concerned only with the measurement of financial position, and do not present the results of operations.

BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. All governmental and trust and agency funds use the modified accrual basis of accounting, where revenues are generally recognized when received in cash or are susceptible to accrual, and expenditures are recorded when the liability is incurred.

ESTIMATES

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**MANCHESTER DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

TOTAL COLUMNS ON COMBINED STATEMENTS - OVERVIEW

Total columns on the Combined Statements - Overview are captioned Memorandum Only to indicate that they are presented only for financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

BUDGETS AND BUDGETARY ACCOUNTING

Formal budgetary integration is employed as a management control device during the year for the General Fund. This budget is adopted on a basis consistent with generally accepted accounting principles (GAAP). A public hearing is held before the adoption of the original budget. The budget may be amended upon a vote by the Library board of trustees. Budget amounts included in the financial statements are as originally adopted or as amended by the Library Board.

BUDGET VIOLATIONS

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended May 31, 2004, the District incurred no expenditures in the General Fund which were in excess of the amounts appropriated.

NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents, and investments of the District can be defined as follows:

Cash and cash equivalents consist of cash on hand, deposits (checking accounts), and investments with an original maturity no greater than 90 days.

These surplus funds are invested in accordance with state law and Board resolutions. Authorized investments include:

- (1) Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States;

**MANCHESTER DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Cash, cash equivalents, and investments of the District can be defined as follows: (Continued)

- (2) Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution, but only if the financial institution is eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States;
- (3) Commercial paper rated at the time of purchase within the highest classification established by not less than two standard rating services, and that matures not more than 270 days from the purchased date;
- (4) Repurchase agreements consisting of instruments listed in subdivision (1) above;
- (5) Bankers' acceptances of United States banks;
- (6) Mutual funds registered under the Investment Company Act of 1940, and with authority to purchase only investment vehicles that are legal for direct investment by a public corporation;
- (7) Obligations described in (1) through (6) as named above is purchased through an interlocal agreement under the Urban Cooperation Act of 1967;
- (8) Investment pools organized under the Surplus Funds Investment Act, 367 of 1982;
- (9) Investment pools organized under the Local Government Investment Pool Act, 121 of 1985.

(The above statute references refer to Michigan Public Acts)

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the District's cash deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 100,000	\$ 100,000
Uninsured	211,964	221,613
Imprest cash	200	-
	<u>\$ 312,164</u>	<u>\$ 321,613</u>

**MANCHESTER DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

The District's deposits are in accordance with statutory authority.

Carrying values of investments approximates market values at May 31, 2004. GASB Statement #3 risk disclosures for the District's investments are as follows:

<u>Investment Type</u>	<u>Carrying Amount</u>
Insured in the District's name:	
Certificate of deposits	\$ <u>5,658</u>

NOTE 4: PROPERTY TAXES

Property tax revenues shown in the General Fund reflect the 2003 District levy of 1.0588 mills on the taxable valuation of property located in the District as of the preceding December 31. Taxable values are established annually by the townships and are equalized by the County. The 2003 levy covers the District's fiscal year of June 1, 2003 to May 31, 2004. The 2003 tax levy became a lien on properties on December 1, 2003, and was substantially collected in 2003. Taxes became delinquent on March 1, 2004. Taxes receivable, as presented in the General Fund balance sheet represents the accounting period's uncollected taxes. The taxable value for the District was \$294,171,422.

NOTE 5: GENERAL FIXED ASSETS

The following table summarizes the changes in components of the General Fixed Assets Account Group.

<u>By Asset Category</u>	<u>Balance 6/1/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 5/31/04</u>
Leasehold improvements	\$ 48,303	\$ -	\$ -	\$ 48,303
Furniture and equipment	77,514	7,293	-	84,807
	<u>\$ 125,817</u>	<u>\$ 7,293</u>	<u>\$ -</u>	<u>\$ 133,110</u>

**MANCHESTER DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 6: RENTS

The District Library signed a shared use agreement with the Village of Manchester for the use of Library facilities. The agreement runs through May 31, 2005, with the Library having the option to extend this term to December 31, 2005. During the term of the agreement, the Library will pay a use fee of \$2,650 for rent and \$600 for a utility fee. The utility fee shall be reviewed annually. Future minimum rental payments under this agreement are due as follows:

<u>YEAR ENDING</u>	<u>AMOUNT</u>
May 31, 2005	<u>\$ 31,800</u>

The District Library paid rent of \$31,800 and utilities of \$10,596 under this agreement during the year ended May 31, 2004.

NOTE 7 CONTINGENCIES

The District Library is comprised of four municipalities. A select group of residents from one of these municipalities have expressed interest in withdrawing from the Library. The decision will be put to a public referendum in November, 2004. If the Township were to withdraw, it would impact the Library's future revenue streams significantly.

The Library's current millage runs through December 2004. The Library has requested a millage renewal of 1.05 mills for ten years, beginning with the 2005 levy. The election to renew the Library's millage will be November 2004.

INDIVIDUAL FUND FINANCIAL STATEMENTS

GENERAL FUND

The General Fund is established to account for resources devoted to financing the general services that are provided for citizens.

MANCHESTER DISTRICT LIBRARY
GENERAL FUND
BALANCE SHEET
MAY 31, 2004

ASSETS

ASSETS

Cash and cash equivalents	\$ 312,164
Accounts receivable:	
Taxes	18,340
Other	46
Prepaid Expenses	<u>5,600</u>

TOTAL ASSETS	<u><u>\$ 336,150</u></u>
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LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	\$ 3,572
Accrued payroll	7,159
Accrued expenses	<u>311</u>

TOTAL LIABILITIES	11,042
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FUND BALANCE

Unreserved, undesignated	<u>325,108</u>
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TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 336,150</u></u>
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MANCHESTER DISTRICT LIBRARY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUNDS BALANCES
AMENDED BUDGET AND ACTUAL
YEAR ENDED MAY 31, 2004

	AMENDED BUDGET	ACTUAL	VARIANCE- FAVORABLE (UNFAVORABLE)
REVENUES			
Property taxes	\$ 299,800	\$ 304,088	\$ 4,288
Copier sales	1,800	1,885	85
Grants	5,980	5,982	2
State aid	8,850	8,820	(30)
Sale of books	700	733	33
Fees	1,500	1,625	125
Penal fines	12,500	12,555	55
Book fines	2,100	2,275	175
Interest earned	2,600	2,919	319
Contributions	3,000	2,975	(25)
TOTAL REVENUES	338,830	343,857	5,027
EXPENDITURES-GENERAL OPERATIONS			
Salaries and wages	117,500	98,362	19,138
Employee benefits	10,100	9,835	265
Social security	9,650	7,609	2,041
Books	29,000	25,703	3,297
Co-op state aid	8,850	3,038	5,812
Continuing education	2,000	334	1,666
Supplies	10,000	8,391	1,609
Board expenses	-	-	-
Postage	3,280	2,551	729
Audio-Visual	12,000	11,436	564
Automation	16,500	16,439	61
Contracted services:			
Accounting and auditing	4,200	3,792	408
Legal	1,500	80	1,420
Consulting	7,000	3,625	3,375
Contracts	20,500	20,376	124

MANCHESTER DISTRICT LIBRARY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUNDS BALANCES
AMENDED BUDGET AND ACTUAL
YEAR ENDED MAY 31, 2004

	AMENDED BUDGET	ACTUAL	VARIANCE- FAVORABLE (UNFAVORABLE)
EXPENDITURES-GENERAL OPERATIONS (Continued)			
Rent	31,800	31,800	-
Refunds	500	208	292
Telephone	3,000	2,457	543
Internet	6,350	6,342	8
Periodicals	2,500	2,345	155
Memberships	800	401	399
Programs	3,000	1,608	1,392
Transportation	1,500	837	663
Utilities	10,600	10,596	4
Insurance	3,300	3,198	102
Capital outlays	21,000	7,293	13,707
	<u>336,430</u>	<u>278,656</u>	<u>57,774</u>
TOTAL EXPENDITURES			
	336,430	278,656	57,774
REVENUES OVER (UNDER) EXPENDITURES	2,400	65,201	62,801
FUND BALANCE - BEGINNING OF YEAR	<u>259,907</u>	<u>259,907</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 262,307</u></u>	<u><u>\$ 325,108</u></u>	<u><u>\$ 62,801</u></u>

TRUST FUND

Trust funds are used to account for assets held by the Library in a trust for individual or other entities. These include:

Expendable Trust Funds – accounts for the amounts designated for specific uses by the Library.

The Library has the following expendable trust fund:

Adler – Restricted for the purchase of books for use in the District Library.

MANCHESTER DISTRICT LIBRARY
TRUST FUND
BALANCE SHEET - EXPENDABLE TRUST FUND
MAY 31, 2004

ASSETS		ADLER
ASSETS		
Cash and cash equivalents		\$ -
Investments		<u>5,658</u>
Total assets		<u>\$ 5,658</u>
FUND BALANCES		
Reserved, designated for Library programs		<u>\$ 5,658</u>

MANCHESTER DISTRICT LIBRARY
TRUST FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - EXPENDABLE TRUST FUND
YEAR ENDED MAY 31, 2004

	<u>ADLER</u>
REVENUES	
Investment income	\$ 263
EXPENDITURES	<u>263</u>
REVENUES OVER (UNDER) EXPENDITURES	-
FUND BALANCES, BEGINNING OF YEAR	<u>5,658</u>
FUND BALANCES, END OF YEAR	<u><u>\$ 5,658</u></u>

MARKOWSKI & COMPANY

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MEMBERS:
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MICHIGAN ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTS
ESTATE PLANNING COUNCIL
OF SOUTH CENTRAL MICHIGAN

September 3, 2004

To the Board of Trustees
Manchester District Library

We have audited the general purpose financial statements of Manchester District Library for the year ended May 31, 2004, and have issued our report thereon dated September 3, 2004. Professional standards require that we provided you with the following information related to our audit.

Our responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated August 23, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the general purpose financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of Manchester District Library. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Manchester District Library are described in Note 1 to the general purpose financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended May 31, 2004. We noted no transactions entered into by Manchester District Library during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the general purpose financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the general purpose financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by Manchester District Library that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed no adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on Manchester District Library's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's general purpose financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Manchester District Library's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

To the Board of Trustees
Manchester District Library
Page Three

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Comments and Recommendations

During our audit we did not discover any material weaknesses in the Library's internal control system design or operation, other than the lack of segregation of duties. We did encounter certain items which we believe warrant the Board's attention. These items are discussed in the attached memorandum of comments and recommendations.

This information is intended solely for the use of the Board of Trustees and management of Manchester District Library and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,


MARKOWSKI & COMPANY, CPAs

MANCHESTER DISTRICT LIBRARY
MEMORANDUM OF COMMENTS AND RECOMMENDATIONS
FOR THE YEAR ENDED MAY 31, 2004

Segregation of Duties

Because of the limited size of the Manchester District Library's accounting staff, proper segregation of duties cannot be accomplished. This is an inherent weakness in the internal controls of the Library. Library management needs to continue to exercise appropriate management oversight to help compensate for the lack of staff. The only corrective action would be to hire additional staff, which is not practical.

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Beginning June 1, 2004 the Library will be required to implement new accounting standards. The major impact that these standards will have on the Library will be the need to capitalize and depreciate the fixed assets of the organization. This will include furniture and fixtures, equipment and books and other library materials that have a useful life of greater than one year. We would like to encourage the management to start preparing for this by determining the categories of different books, (hardcover vs. paperbacks, videos, etc.) and the life of each category.

Accounting Records

We found that the accounting records of the Manchester District Library were in excellent condition. All of the accounting records were complete and well organized. This is a direct result of the staff's attention to detail and continued improvements in the organizations accounting system.